**Abstracts**

**"The Financial Crises in comparative regional perspective:**

**Can Europe Learn from other Regions?"**

**FINANCIAL CRISES AND DOMESTIC OPPOSITION AGAINST REGIONAL INTEGRATION –**

**A COMPARATIVE ANALYSIS**

Anja Jetschke / Bernd Schlipphak

What effects does a financial crisis have on the process of regional integration? The paper focuses on the conditions under which a financial crisis impacts negatively on regional integration. It argues that the external provision of solutions to a financial crisis is an important factor in determining a negative impact. We suspect that the trigger mechanism is nationalist backlash: The solutions are mainly proposed and enforced by international institutions such as the IMF and the supranational institutions of the European Union or strong actors such as Germany in the EU case. This has overwhelmingly led citizens within countries strongly affected by the crisis to perceive their national policies as being influenced from the outside. As these solutions have again most of the time been hurtful to the individual well-being of a majority of citizens, the influence from the outside has been perceived as something negative, leading citizens to favor protectionist, nationalist and autonomous positions in return. This has resulted in the increasing (electoral) success of political groups representing the latter policy positions. Hence, by forming parts of national governments or at least representing a strong public opposition, these groups were then able to significantly influence the national government’s position toward regional integration, shifting that position from integration-friendly towards integration-skeptical. Therewith, they caused a (preliminary) halt of regional integration. This argument will be tested by analyzing quantitative data on public opinion polls, electoral statistics and governmental positions toward regional integration in the pre- and aftermath of a financial crisis and by comparing regionalisms in Latin America, Southeast Asia and Europe.

**Title: The Euro crisis and regional monetary cooperation in developing countries: Which lessons to be learnt?**Sebastian Dullien / Barbara Fritz / Laurissa Mühlich

Abstract: The Euro crisis has made evident the flaws of a regional monetary integration project with limited economic cooperation. In this paper, we focus on three crucial aspects: first, lack of fiscal cooperation and actions required thereof, including the ability to enforce sovereign state insolvency; second, a limitation in liquidity provision and the need for an mechanism to extend lender-of-last-resort facilities to solvent yet illiquid sovereign member states; and third, the need for prudent financial regulation at the regional level. We derive these conclusions from a comparative analyisis of the ongoing Euro crisis and different monetary cooperation schemes in South East Asia and Latin America which focus on the provision of liquidity provision to member states. The analysis specifically addresses effects of asymmetric cooperation mechanisms. The aim of this paper therefore is to detect stable institutional settings for specific forms of regional monetary cooperation and integration, short of political union, both in the case of the European integration project and regional cooperation schemes among developing countries.

**The Greek and Mexican financial crises: the role of national and supranational actors.**

Edgar J. Saucedo Acosta/Samantha Rullan Rosanis

This paper examines the similarities and differences between the Greek (2010-2011) and the Mexican (1994-1995) crisis. Both of them had regional impacts, in Europe in the first case and in South America in the second case. After the crisis, important decisions that were taken have changed the way economic policy is made in both countries. Also, measures taken to resolve the crises involved several key players, both at the national and the supranational level. In the Greek crisis the International Monetary Fund and the Eurozone authorities intervened. While in the case of Mexico, the country received loans from the International Monetary Fund, the United States Treasury, the Bank for International Settlements, and the Bank of Canada.

In both crises, Greece and Mexico received a number of recommendations to be applied in their economic policies. Under these terms, austerity was required in order to pay their debts. In the case of Mexico, that had its own currency, it allowed the country to gain competitiveness through devaluations, while Greece is at a crossroads: should it continue to use the euro? The aim of this paper is to analyze the impact and role of national and supranational key players involved in the resolution of both crises.

**Mexico (1994-95), Brazil (1998-99), and Argentina (2001-02)**

Carol Wise

From the outside looking in, the dramatic financial crises that erupted in Latin America between 1994 and 2001 appear to be variations on a longstanding theme of cyclical downturn and macroeconomic profligacy. However, in this paper I argue that the three main crises that erupted in Mexico (1994-95), Brazil (1998-99), and Argentina (2001-02) differed from past financial blow-ups in the Latin American region in at least three significant ways. First, beginning with Mexico’s financial meltdown in late 1994, all three were the first major financial disruptions in the Western Hemisphere in the era of securitized capital flows. Thus, in contrast with the 1982 debt crisis, private actors in bond and equity markets were able to make a quick exit. Second, the flip side of this easy capital mobility was the unexpected way in which financial contagion shot through emerging markets in other regions and thereby rendered each of these Latin American fiascos a full-blown systemic risk. Third, although this contagion, as well as the magnitude of each crisis, clearly cried out for international intervention of some sort, the tried and true IMF stand-by agreements that prevailed over most pre-1994 crises in the region never fully crystallized in these cases. For Mexico, it took a US$20 billion line of credit from the US Treasury in order to lure the IMF into contributing to the rescue package; for Brazil, the IMF actually took a pro-active stance and put up $50 billion prior to the 1998 devaluation, which did indeed make for a softer landing and more rational policy response; for Argentina, the IMF basically turned its back on a fixed exchange rate program that Fund officials had long touted as a success. Senior officials in the IMF’s Western Hemisphere department rightfully lost their jobs over the poor policy advice they had proffered and the economic free-fall that quickly unfolded in Argentina.

 In line with the research questions outlined in your call for proposals, my paper will identify those local, regional, and international actors that convened around each of these crises. Given that the usual IMF orthodoxy in lending practices and policy advice turned out to be rather fluid in these cases, I will probe the origins of the solutions considered, their efficacy, and their legitimization. In terms of explaining the differences between these cases and the pre-1994 scenario in the Latin American region, of interest here is the ways in which regional path dependencies interacted with bold new programs of market reform that had been implemented in all three countries from the late 1980s on. Regional policy legacies absolutely shaped the crisis responses across these three countries, although the variation in outcome suggests the need to consider domestic institutional factors in conjunction with these legacies. As an exercise in comparative political economy, my paper will probably speak most directly to the policy choices available to the less developed EU countries like Greece and Portugal. If anything, these Latin American cases confirm that the era of blueprint reforms and packaged solutions is long past; the prolonged crisis and policy indecision that has plagued the EU bloc for more than two years seems to confirm the need for policy flexibility and innovation in the design of any new “international financial architecture.”

**Political economy of crisis management in East-Central European countries: Back to left and right?**

Martin Myant, Jan Drahokoupil, Ivan Lesay

The world financial and economic crisis, spreading from the USA from 2007, led to different policy reactions across the world and also within world regions. The aim of this paper is to analyse policy responses in four countries in Central and Eastern Europe, the Czech Republic, Hungary, Poland and Slovakia. They constitute a group of countries where the impact of the crisis was relatively similar. The comparison therefore elucidates the interactions between economic conditions and imperatives and political forces, pointing out to the key role of the differences in the relative strengths of various political forces. They point out to a consolidation of the left-right socio-economic cleavage that seemed somewhat blurred before 2007.

There were two broad types of responses that can be related to a range of specific policy measures. Both of these courses of reactions included measures that directly responded to economic problems. They also included different solutions to the aim of balancing the budget. Moreover, the crisis management could be used as an opportunity to implement policies that the parties in power preferred to implement regardless of the crisis. A hesitant semi-Keynesian response, pursued by left-wing and pro-European parties, included counter-cyclical policies to compensate for the fall in private-sector demand. The Keynesian emphasis on stimulating growth as a best way to reduce the budget deficit did not last long as the aim of balancing the budget gradually gained a prominence. This way of thinking, however, implied a rather pragmatic approach to balancing the budget, including both revenue increases and spending cuts. Reversing pension privatization represented an important area of savings. In contrast, a neo-liberal response, favoured by the right-wing parties, saw the main danger in increasing public indebtedness. Aiming at reducing the public sector and state intervention, its preferred way of adjustment was through spending cuts, possibly in combination with cutting taxes and/or making them less progressive. The neoliberal response to problems with financing pension privatization was that of spending cuts. The adjustment through balancing the budget was a default option when debt could not be financed on the market and the country had to rely on IMF financing.

**A Tale of Three Crises:  The Path of East Asian Financial Regionalism, 1997-2012**

William Grimes

East Asian financial regionalism was born in response to the Asian Financial Crisis of 1997-98.  The regionalism that has emerged over the last decade and a half both has embodied a clear regional interpretation of what had gone wrong in 1997-98 and a need for institutions that would be politically viable in the regional context.  The global financial crisis of 2007-09, as well as the eurozone crisis that has followed it, have inspired additional changes and embellishments to the structure of East Asian regional financial cooperation.  However, the underlying politics of divided leadership and mutual suspicion have remained a stumbling block to the vision of regional institutions to prevent and manage financial crises.  This paper will investigate the ways in which key East Asian actors have sought to address the economic and political challenges of regionalism.

**Financial Crises as Catalysts for Regional Integration: Chances and Obstacles for Financial Integration in ASEAN+3, MERCOSUR and the Eurozone**

Sebastian Krapohl/Daniel Rempe

**Abstract:** This paper compares and analyzes the different answers from the ASEAN+3, the Eurozone and from MERCOSUR on financial crisis in their respective regions. All regions were hit by economic turmoil in the last 15 years (namely the Asian crisis, the Greek crisis and the Argentinean crisis), but whereas the ASEAN+3 and the Eurozone answered with monetary integration in order to fight future crises, monetary cooperation in the MERCOSUR did not take off. We argue that this is due to different interests of the respective regional powers in their region, which in turn depends on the economic structures of the respective regions. Dynamic network analysis demonstrates that the regional powers of the ASEAN+3 and the Eurozone are economically highly embedded within their respective regions, but that this is not so much the case for Brazil in MERCOSUR. Thus, whereas China and Japan in the ASEAN+3 and France and Germany in the Eurozone have an interest to stabilize their neighbors, Brazil is more focused on exports to the world market and has no need to push monetary integration in its own region. This finding contributes to the current debate in comparative regionalism about the role of regional powers on the course of regional integration. Whereas asymmetries between member states of a regional organization seem to be necessary in order that bigger member states are able to stabilize their smaller neighbors, economic interdependence is at least as important in order that the regional powers have enough interests in their regions in order to become benevolent paymasters.

**Fiscal Federalism in the European Union: Do Lessons from the US fit with the ideational setting of EMU?**

***Sonja Puntscher Riekmann, Doris Wydra***

The current economic and debt crisis in the European Union has prompted a number of measures intended to reform the discerned weaknesses of the architecture of the monetary union: while the EFSF and ESM enabled loans, supplemented by austerity programmes, to states facing difficulties in obtaining market financing, the “six pack” and the European fiscal compact introduce stricter enforcement provisions for the Stability and Growth Pact, tighten surveillance mechanisms and aim a strengthening fiscal discipline. This puts renewed discussions about European fiscal federalism back on the agenda and also induces comparison with US fiscal federalism, especially owing to the fact that although public debt and deficit are smaller in the euro area than in the US the viability of the Euro area is increasingly put into question. Authors like Inman, Rubinfeld or Darvas stress that there are lessons for EMU to be learned from the United States historic and present experiences.

This paper aims to critically assess the possibility of drawing lessons from US experiences. Do we really see an ideational shift caused by the crisis, inspiring the “constitutional moment” of fiscal federalism and thus initiating a move from pure monetary policy to fiscal policy? Or can the current EMU reforms be better explained by existing power structures within the Eurozone where a specific “Northern” focus on thrift is imposed onto an allegedly profligate South? To what extent can elements of the US model be transferred to the European context, taking into account the different historically grown structures, institutions and economic concepts? Do we see a generation of a “new body of knowledge” drawing on existing examples of fiscal federalism to find efficient ways out of the crisis or have we to concede in analogy with Reinhart and Rogoff that the conviction that “this time is different” hinders effective learning?

**From Crisis to Political community:**

**Did the Euro Promote Europe?**

Tal Sadeh

Cohen (2000) has argued that a sense of political community among the member states can make a currency union among sovereign states sustainable even if none of its members were a hegemonic power. Constructivists assert that International Organizations’ (IO) main impact on financial globalization is by providing new meaning to information, thus changing actors’ preferences and interests (Barnett and Finnemore, 2004; and Marcussen, 2004). IOs can be part of knowledge networks and policy communities, and be engaged with transnational advocacy networks, organizations and epistemic communities (Howarth and Sadeh, 2011; Stone, 2002).

This paper will argue that by reinterpreting preferences and interests such international and transnational organizations can promote that sense of political community, and thus are important for the sustainability of a currency union and other multilateral financial arrangements. Financial crises periods are important here because they present opportunities for institutionalization of long-evolved perceptions and identities. To support this argument the paper will inquire whether the single currency and the euro area’s institutions and policies had since 1999 and especially through the current crisis evolve to weaken national identities (Helleiner, 2002) or embed them in a broader continental context. Did the ESCB, ECOFIN, EFSF, ESM, SGP, Six-Pack, and the Fiscal Compact foster or institutionalize a pan-European identity and a shared perception of national interests (Dyson, 2008; Quaglia, 2006)? How did the ECB, Commission and the EP engage with knowledge and advocacy networks and epistemic communities? The paper will compare the results with the Asian and Latin American experience and suggest institutional reforms there.

**A Comparative Political Economy of Financial Crises in Latin America:**

**The Eurozone Crisis and German Crisis Management***Mathis Heinrich and Amelie Kutter*

The European sovereign debt crisis has forced national governments in the Eurozone to coordinate formerly parallel attempts at crisis management in joint action for state and bank rescue. The chosen approach limits crisis management to national monetary issues, directed at bolstering the common currency against speculative attacks on government bonds by imposing austerity measures and state-guaranteed loans on insolvent member states. The simultaneous reform of the European governance system further deepens an authoritarian regime of austerity which is meant to prevent future crises and restore European competitiveness. This approach has often been characterised as resulting from the power politics pursued by the German government at intergovernmental level to protect Germany’s competitive advantages and policy goals in Europe. The paper argues that recent Eurozone policies, while much in line with what is assumed to be German interests, result from a complex interplay of already established policies at EU level, multi-level power struggles of social and political forces, as well as dynamics of public-political communication. Drawing on assumptions of Cultural Political Economy, the paper explores why a restrictive policy approach got established, highlighting actor constellations involved in policy-making and discourses reinforced in policy documents and public-political debates at German and European level.

**Embracing and Resisting Neo-liberalism: Regulating Banks in Central and Eastern Europe between Two Financial Crises**

Aneta B. Spendzharova

When the effects of the Asian financial crisis reached Central and Eastern Europe in 1998, banking sector supervisory organizations adopted different regulatory responses. After wide-spread bank privatization and consolidation across the region, some bank regulators such as those in Bulgaria and Slovenia adopted a more risk-averse regulatory strategy, demanding higher capital adequacy ratios and provisions against bad loans. Others such as those in Estonia and Hungary refrained from tougher hands-on regulation of the banking sector. Regarding the first set of questions in the workshop, this paper outlines what kind of solutions were considered during the Asian and the current European financial crisis in Central and Eastern Europe in the field of banking sector regulation. Regarding the second set of questions in the workshop, I argue that we observe clear path dependency in the regulatory approaches adopted in the four countries in my analysis – Bulgaria, Estonia, Hungary and Slovenia. In particular, the paper highlights the diffusion of the neo-liberal regulatory paradigm in Central and Eastern Europe after the Asian financial crisis and its dominance in countries such as Estonia and Hungary.

Lastly, from a broader regional point of view, this paper argues that the ongoing European reforms in financial regulation may have negative unintended consequences for the robustness of bank supervision in Central and Eastern Europe. We observe a strong drive at the European level for maximum harmonization and centralization of financial regulatory policy. This comes at the expense of national diversity in regulation. The more risk-averse approach in bank regulation adopted by some supervisory organizations such as those in Bulgaria and Slovenia is rooted in drawing lessons from regulatory failure in the aftermath of the Asian financial crisis. More recently, this risk-averse approach has helped the banking sectors of Bulgaria and Slovenia to withstand the ongoing European financial crisis relatively unscathed. Denying regulators the opportunity to learn from their mistakes and adopt the most appropriate regulatory strategy for their local market could have negative unintended consequences in the future.

**Transnational financial regulation in Latin America: A learning progress after the 1990s crisis?**

Jacint Jordana (UPF-IBEI)

The financial regulatory institutions in Latin America were involved in a turbulent environment during the 1980s and 1990s, coping with many banking crisis and domestic fiscal crisis. These developments and policy reactions have been extensively researched and discussed in the literature. However, this paper pretends a different approach to the public intervention on finance regulation in Latin America, focusing on the transnational dimension at the regional level of financial regulators and how transnational relations have transformed during the last three decades in the region. The paper scrutinizes the institutionalization and architecture of the Latin American regional financial space, and assesses to what extent professional networks have contributed to a horizontal and more effective way of regional regulatory governance in more recent times.

Several questions should follow from our analysis of transnational financial regulation in the region. To what extent the calm period in financial regulation in Latin America during the last ten years, in spite of global turbulences in late 2000s, is a result of improved cooperation among domestic regulators that consolidated as a consequence of previous financial crisis in the region? What’s the role of specialized international organizations, public and private in contribution to stabilize and enforce domestic financial regulation? The privatization of banks and foreign investment in the monetary area during the 1990s, transformed the financial markets in most countries in the region: how this challenged domestic regulators and their coordination at the regional level the years after? Also a discussion considering recent European developments and the coordination between national regulators will follow.

**Title: Banking Crises Governance and Statehood in Comparative Perspective**Christian Ambrosius / Barbara Fritz

Abstract: Although banking crises occur regularly across the developed and the developing world, the types of containment and resolution mechanisms applied and, related to this, the distribution of costs between public and private actors varies greatly across countries. In this paper, we develop a typology of banking crisis governance from the 1980s to the present, asking for lessons from developing countries' resolution mechanisms for the current crises in advanced economies. The variation in the forms of governance – ranging from protraction over liquidity support to direct intervention and the nationalization of banks - is explained as a result of the differing capacities of states to set and enforce rules in the banking sector. Our hypothesis is that this capacity depends on the one hand on the fiscal and monetary policy space available to states which tends to be more restricted in developing countries, and on the other hand on the balance of power between the financial sector and the state.

**Sovereign Debt Crises, Speculatory Attacks and the Sustainability of Political Institutions: The Historical Record and the European Union**

Gerald Schneider/Federica Genovese

The sovereign debt crises of some member states of the European Union (EU) has raised fears over the growing de-legitimization of the supranational organization, the competiveness of Europe and the sustainability of the European Monetary Union and the EU itself. The new debate about the “democratic deficit” of the regional organization has, however, largely shied away from examining thoroughly the possible institutional effects of similar crises in the past. We examine in this article what sort of institutional effects sovereign debt crises and speculatory attacks have had. Drawing on the rich literature on economic reform, we argue that economic crises render the effects of fiscal prolificacy more obvious. This in return increases the chance of reforms that curtail the leeway for decision makers. We expect in line with this optimistic argument that economic crises have increased central bank independence and have inspired democratic reforms rather than increased the danger of authoritarian decision making. Panel regression models of the crises and their aftermath since the 1970s support the double conjecture that sovereign debt crises can render policy making both more democratic and more technocratic. We discuss what sort of lessons can be drawn from these historical experiences for the democratic governance of the European Union where the European Central Bank is already highly independent and where a democratization of EMU-wide fiscal policy making is momentarily highly unlikely.

**Governing Financial Distress: The Making of Global Debt Management in the 1980s**

Sebastian Alvarez

\*

Mexico's debt moratorium announcement in August 1982, followed soon by similar statements of other indebted countries, marked the beginning of the international debt crisis that would put the world economy under stress during the 1980s. Given the high exposure of international banks to the LDC debt, the threat of defaults jeopardized the stability of the international financial system. Confronted with this global risk, creditors such as commercial banks, developed countries governments and multilateral organizations coordinated their actions to avoid major interruptions in the international payment system and, more generally a collapse of the international financial system. In so doing, they developed global strategies for negotiating with developing countries and dealing with debt crisis.

With especial focus in the Latin American experience, this paper explores the political economy of the debt management regime of 1982-1989 to shed light on the development of this complex renegotiating procedure. I argue that the U.S. government was the leading actor in the making of this financial stabilization strategy. It found in the IMF an institution with both the capacity and the need to organize and execute an international program to deal with debtor countries' external difficulties. Both the U.S. government and the IMF worked hard to encourage commercial banks to avoid disruptive behaviors and enforce the working of this muddle-through strategy. The interplay between politics and economics in governing the 1980s international debt crisis is of particular interest in the present crisis where a new vague of sovereign debt troubles are putting the European financial system under pressure.

***Testing Times: Responsibility to the fore in the Euro Crisis***

Brigid Laffan

The aim of this paper is to explore the challenges facing political parties as they seek to govern during the crisis and beyond in the light of the new rule bound system of economic governance that is emerging. The paper is developed in four sections. Section one explores the emergence of party government and its attendant concepts of responsiveness, representation and responsibility. Section two identifies the growing role of domestic core executives in the EU. Section three traces the emergence of responsibility to the collective as a central norm in the system of economic governance that is evolving in the EU and the impact of its implementation on politics. The final section explores the likely impact of the new system of economic governance on domestic politics and on the multilevel system of the EU.